

**REPORT OF THE AUDIT OF THE
KNOTT COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

June 30, 2005



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
KNOTT COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Knott County Sheriff as of June 30, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,872,337 for the districts for 2004 taxes, retaining commissions of \$200,960 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,657,146 to the districts for 2004 Taxes. There are no additional taxes due to the districts from the Sheriff and no refunds due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	7
SHERIFF'S SETTLEMENT - 2004 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Randy Thompson, Knott County Judge/Executive

Honorable Ray E. Bolen, Knott County Sheriff

Members of the Knott County Fiscal Court

Independent Auditor's Report

We have audited the Knott County Sheriff's Settlement - 2004 Taxes as of June 30, 2005. This tax settlement is the responsibility of the Knott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Knott County Sheriff's taxes charged, credited, and paid as of June 30, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2006, on our consideration of Knott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Randy Thompson, Knott County Judge/Executive

Honorable Ray E. Bolen, Knott County Sheriff

Members of the Knott County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -
March 29, 2006

KNOTT COUNTY
RAY E. BOLEN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

June 30, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 256,519	\$ 160,603	\$ 961,388	\$ 292,209
Tangible Personal Property	102,995	54,802	331,274	354,023
Intangible Personal Property				19,957
Fire Protection	3,883			
Increases Through Exonerations	97	61	363	110
Franchise Corporation	77,787	42,309	256,599	
Additional Billings	115	72	431	131
Unmined Coal - 2004 Taxes	150,271	99,039	563,189	171,178
Oil Property Taxes	2,664	1,668	9,984	3,034
Gas Property Taxes	187,001	117,079	700,848	213,018
Penalties	4,458	2,785	16,484	5,735
Adjusted to Sheriff's Receipt	(166)	(12)	(127)	(61)
Gross Chargeable to Sheriff	<u>\$ 785,624</u>	<u>\$ 478,406</u>	<u>\$ 2,840,433</u>	<u>\$ 1,059,334</u>
<u>Credits</u>				
Exonerations	\$ 11,620	\$ 7,355	\$ 43,541	\$ 13,234
Discounts	10,672	6,586	39,009	15,654
Delinquents:				
Real Estate	18,606	11,535	69,050	20,987
Tangible Personal Property	601	320	1,932	1,181
Intangible Personal Property				14
Unmined Coal - 2004 Taxes	2,895	2,521	10,849	3,298
Total Credits	<u>\$ 44,394</u>	<u>\$ 28,317</u>	<u>\$ 164,381</u>	<u>\$ 54,368</u>
Taxes Collected	\$ 741,230	\$ 450,089	\$ 2,676,052	\$ 1,004,966
Less: Commissions *	<u>31,790</u>	<u>19,129</u>	<u>107,042</u>	<u>42,999</u>
Taxes Due	\$ 709,440	\$ 430,960	\$ 2,569,010	\$ 961,967
Taxes Paid	707,213	429,581	2,560,882	959,470
Add-Penalty Per State Settlement				12
Less-Refunds (Current and Prior Year)	<u>2,227</u>	<u>1,379</u>	<u>8,128</u>	<u>2,509</u>
Due Districts				
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* See Next Page.

The accompanying notes are an integral part of this financial statement.

KNOTT COUNTY
RAY E. BOLEN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
June 30, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,186,285
4% on	\$	2,676,052

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2005
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 05, 2004 through May 19, 2005.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2004. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 23, 2005 through June 30, 2005.

Note 4. Interest Income

The Knott County Sheriff earned \$2,369 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Knott County Sheriff collected \$22,495 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Knott County Sheriff collected \$725 of advertising costs and \$3,960 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

KNOTT COUNTY
RAY E. BOLEN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of June 30, 2005

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks An Adequate Segregation Of Duties

The internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements. In addition, management has considered additional costs when setting total employee salary limitations, and has decided to limit the number of personnel, and therefore accept the risk for a lack of adequate segregation of duties.

We suggest the following compensating controls that would help to offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and cash ledgers by the Sheriff
- The Sheriff or someone independent of the Sheriff's Office prepares bank reconciliations

Sheriff's Response:

OK.

PRIOR YEAR:

The Sheriff's Office Lacks An Adequate Segregation Of Duties

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Randy Thompson, Knott County Judge/Executive
Honorable Ray E. Bolen, Knott County Sheriff
Members of the Knott County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Knott County Sheriff's Settlement - 2004 Taxes as of June 30, 2005, and have issued our report thereon dated March 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knott County Sheriff's Settlement - 2004 Taxes as of June 30, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 29, 2006

